

Caution: DRAFT FORM

This is an advance proof copy of an IRS tax form. It is subject to change and OMB approval before it is officially released. You can check the scheduled release date on our web site (www.irs.gov).

If you have any comments on this draft form, you can submit them to us on our web site. Include the word DRAFT in your response. You may make comments anonymously, or you may include your name and e-mail address or phone number. We will be unable to respond to all comments due to the high volume we receive. However, we will carefully consider each suggestion. So that we can properly consider your comments, please send them to us within 30 days from the date the draft was posted.

Instructions for Form 941

(Rev. January 2005)



Department of the Treasury
Internal Revenue Service

What's New

Revised form and instructions. You may notice a number of changes in Form 941. We revised the form and instructions so that they are easier for you to read and fill out. At the same time, the new design makes the forms easier and faster for us to process. Now we can optically scan the forms and will capture data more accurately and efficiently than before. Please read both the form and instructions carefully to become familiar with the many changes.

If you have comments or suggestions for improving the form or instructions, we would be happy to hear from you. Write to the address shown in the *Privacy Act and Paperwork Reduction Act Notice* on the back of Form 941-V, Payment Voucher.

New form for reporting discrepancies between Forms 941 and Forms W-2. We recently developed Schedule D (Form 941), Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations. You may use Schedule D (Form 941) to explain certain wage, tax, and payment discrepancies between Forms 941 and Forms W-2 that were caused by acquisitions, statutory mergers, or consolidations.

Social security wage base for 2005. Do not withhold social security tax after an employee reaches \$90,000 in social security wages. (There is no limit on the amount of wages subject to Medicare tax.)

Electronic Filing and Payment

Now, more than ever before, businesses can enjoy the benefits of filing and paying their federal taxes electronically. Whether you rely on a tax professional or handle your own taxes, IRS offers you convenient programs to make it easier. Spend less time and worry on taxes and more time running your business. Use e-file and Electronic Federal Tax Payment System (EFTPS) to your benefit.

- For e-file, visit www.irs.gov for additional information.
- For EFTPS, visit www.eftps.gov or call EFTPS Customer Service at 1-800-555-4477.

Use the electronic options available from IRS and make filing and paying taxes easier.

941TeleFile

Another non-paper option for filing Form 941 is 941TeleFile. Use the 941TeleFile Tax Record and 941TeleFile Instructions included with your tax package and your Touch-Tone telephone.

All U.S.-based (domestic) taxpayers may file their "Zero Wage" Forms 941 by telephone using the 941TeleFile system. See Publication 3950, 941TeleFile—Your Easiest Way To File, for details.

Photographs of Missing Children

The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in instructions on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

General Instructions: Understanding Form 941

Purpose of Form 941

These instructions give you some background information about Form 941, Employer's Quarterly Federal Tax Return. They tell you who must fill out the form, how to fill it out line by line, and when and where to file it. If you want more in-depth information about payroll tax topics relating to Form 941, see Publication 15 (Circular E), Employer's Tax Guide, or visit the IRS website at www.irs.gov.

Federal law requires you as an employer to withhold taxes from your employees' paychecks. Each time you pay wages you must withhold –or take out of your employees' paychecks – certain amounts for federal income tax, social security taxes, and Medicare taxes (payroll taxes). Under the withholding system, taxes withheld from your employees are credited to your employees in payment of the employees' tax liabilities.

Federal law also requires employers to pay any liability for the employer's portion of social security and Medicare taxes. This portion of social security and Medicare taxes is not withheld from employees.

Use Form 941 to report:

- payroll taxes for the quarter;
- current quarter's adjustments to social security and Medicare taxes for fractions of cents, sick pay, tips, and group-term life insurance; and
- prior quarters' adjustments to payroll taxes.

Do not use the Form 941 to report backup withholding or income tax withholding on **nonpayroll** payments such as pensions, annuities, and gambling winnings. Report these types of withholding on Form 945, Annual Return of Withheld Federal Income Tax.

Who Must File Form 941?

If you are an employer, you must file a quarterly Form 941 to report:

- wages you have paid,
- tips your employees have received,
- federal income tax you withheld,
- both the employer's and the employee's share of social security and Medicare taxes, and
- advance earned income tax credit (EIC) payments.

After you file your first Form 941, you must file a return for each quarter even if you have no taxes to report. However, see *Exceptions* below.

Exceptions

Special rules apply to some employers.

- **Seasonal employers** are not required to file a Form 941 for quarters when they have no tax liability because they have paid no wages. To tell the IRS that you will not file a return for one or more quarters during the year, check the box on line 17 **every**

quarter you file the form. See section 12 of Pub. 15 (Circular E) for more information.

- Employers of **household employees** do not usually file Form 941. See Pub. 926, Household Employer's Tax Guide, and Schedule H (Form 1040), Household Employment Taxes, for more information.
- Employers of **farm employees** do not usually file Form 941. See Form 943, Employer's Annual Tax Return for Agricultural Employees, and Pub. 51 (Circular A), Agricultural Employer's Tax Guide.

What if you reorganize or close your business?

If you sell or transfer your business . . .

If you sell or transfer your business, you and the new owner must each file a Form 941 for the quarter in which the transfer occurred. Report only the wages you paid.

When two businesses merge, the continuing firm must file a return for the quarter in which the change took place and the other firm should file a **final return**.

Changing from one form of business to another—such as from a sole proprietorship to a partnership or corporation—is considered a transfer. See section 1 of Pub. 15 (Circular E). If a transfer occurs, you may need a new employer identification number (EIN). Attach a statement to your return with:

- the new owner's name (or the new name of the business),
- whether the business is now a sole proprietorship, partnership, or corporation;
- the kind of change that occurred (a sale or transfer); and
- the date of the change.

If your business has closed . . .

If you go out of business or stop paying wages to your employees, you must file a **final return**. To tell the IRS that the form for a particular quarter is your final return, check the box on line 16 and enter the date that you last paid wages.

See the Instructions for Forms W-2 and W-3 for information about the earlier dates for the expedited furnishing and filing of Forms W-2 when a final Form 941 is filed.

If you participated in a statutory merger or consolidation, or qualify for predecessor-successor status due to an acquisition, you should generally file Schedule D (Form 941), Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations. See the Instructions for Schedule D (Form 941) to determine whether you should file Schedule D (Form 941) and when you should file it.

When Must You File?

File your initial Form 941 for the quarter in which you first pay wages that are subject to social security and Medicare taxes or subject to federal income tax withholding. See the table below titled, *When To File Form 941*.

Then you must file every quarter after that—every three months—even if you have no taxes to report (unless you are a seasonal employer or are filing your final return. See *Seasonal employers* and *If your business has closed* . . . above).

File Form 941 only once for each quarter. If you filed by electronic or TeleFile methods, do not also file a paper Form 941. For more information about filing Form 941 electronically, see *Electronic Filing and Payment* on page 1.

When To File Form 941

Your Form 941 is due by the last day of the month that follows the end of the quarter.

| The Quarter Includes . . . | Quarter Ends | Form 941 Is Due |
|--------------------------------|--------------|-----------------|
| 1. January, February, March | March 31 | April 30 |
| 2. April, May, June | June 30 | July 31 |
| 3. July, August, September | September 30 | October 31 |
| 4. October, November, December | December 31 | January 31 |

For example, generally you must report wages you pay during the first quarter—which is January through March—by April 30th. If you made deposits in full payment of your taxes for a quarter, you have 10 more days after the due date to file your Form 941.

We consider your form filed on time if it is properly addressed and mailed First-Class or if it is sent by an IRS-designated delivery service on or before the due date. See Pub. 15 (Circular E) for more information on IRS-designated delivery services.

If any due date for filing shown above falls on a Saturday, Sunday, or legal holiday, you may file your return on the next business day.

How Should You Complete Form 941?

Review Your Business Information at the Top of the Form

If you are using a copy of Form 941 that has your business name and address preprinted at the top of the form, check to make sure that the information is correct. Carefully review your EIN to make sure that it exactly matches the EIN assigned to your business by the IRS. If any information is incorrect, cross it out and type or print the correct information. See also *If you change your name or address...* below.

If you pay a tax preparer to fill out Form 941, make sure the preparer uses your business name and EIN **exactly** as they appear on the preprinted form we sent you.

If you are not using a preprinted Form 941, type or print your EIN, name, and address in the spaces provided. You **must** enter your name and EIN here and on the back of page 2 even if you complete and return Form 941-V, Payment Voucher. **Do not** use your social security number (SSN) or individual taxpayer identification number (ITIN). Generally, enter the business (legal) name that you used when you applied for your EIN on Form SS-4, Application for Employer Identification Number. For example, if you are a sole proprietor, enter "Ronald Smith" on the "Name" line and "Ron's Cycles" on the "Trade name" line. Leave the "Trade name" line blank if it is the same as your "Name."

Employer identification number (EIN). To make sure that businesses comply with federal tax laws, the IRS monitors tax filings and payments by using a numerical system to identify taxpayers. A unique 9-digit EIN is assigned to all corporations, partnerships, and some sole proprietors. Businesses needing an EIN must apply for a number and use it throughout the life of the business on all tax returns, payments, and reports.

Your business should have only one EIN. If you have more than one and are not sure which one to use, check with the IRS office where you file your returns. If you do not have an EIN, apply for one from the IRS by mail, by telephone, or by visiting

the IRS website at www.irs.gov/smallbiz. Request Form SS-4, Application for Employer Identification Number. If you do not have an EIN by the time a return is due, write "Applied For" and the date you applied in the space shown for the number.



Always be sure the EIN on the form you file exactly matches the EIN that IRS assigned to your business. Do not use your personal social security number on forms that ask for an EIN. Filing a Form 941 with an incorrect EIN or using another business's EIN may result in penalties and delays in processing your return.

If you change your name or address... Notify the IRS **immediately** if you change your business name or address.

- Write to the IRS office (where you would file your return without payment) to notify the IRS of any name change. (Get Pub. 1635, Understanding Your EIN, to see if you need to also apply for a new EIN.)
- Complete and mail Form 8822, Change of Address, for any address change.

Check the Box for the Quarter

In the box at the top of the form, check the appropriate box of the quarter for which you are filing. Make sure that the quarter checked is the same as shown on any attached Schedule B (Form 941), Report of Tax Liability for Semiweekly Schedule Depositors.

Completing and Filing the Form

Make entries on Form 941 as follows to enable accurate scanning and processing.

- Use 12-point Courier font (if possible) for all entries if you are typing or using a computer to fill out your form.
- Omit dollar signs and decimal points. Commas are optional. (Report dollars to the left of the preprinted decimal point and cents to the right of it.)
- Leave blank any data field with a value of zero.
- Enter negative amounts in parentheses (if possible).
- Enter your name and EIN on **all** pages and attachments. (Filers using the IRS-preaddressed Form 941 are not required to enter their name and EIN on page 2.)

Other Forms That You Must Use

Each quarter with your Form 941, send copies of any Forms W-4, Employee's Withholding Allowance Certificate, you received during that quarter from any employees who claimed more than (a) 10 withholding allowances or (b) exemption from income tax withholding if the employee's wages will normally be more than \$200 a week. For details, see section 9 of Pub. 15 (Circular E).

Give each eligible employee Notice 797, Possible Federal Tax Refund Due to the Earned Income Credit (EIC). Then each eligible employee who wishes to receive any advance earned income credit (EIC) payments must give you a completed Form W-5, Earned Income Credit Advance Payment Certificate. For more information, see section 10 of Pub. 15 (Circular E) and also Publication 596, Earned Income Credit.

Reconciling Forms 941 and Form W-3

The IRS matches amounts reported on your four quarterly Forms 941 with Form W-2 amounts totaled on your yearly Form W-3, Transmittal of Wage and Tax Statements. If the amounts do not agree, you may be contacted by the IRS. The reconciled amounts are:

- income tax withholding,
- social security wages,
- social security tips,
- Medicare wages and tips, and
- advance earned income credit (EIC).

For more information, see section 12 of Pub. 15 (Circular E). See also the Instructions for Schedule D (Form 941), Report of

Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations.

Depositing Your Taxes

When Must You Deposit Your Taxes?

Determine if you are a monthly or semiweekly schedule depositor for the quarter

The IRS uses two different sets of deposit rules to determine when businesses should deposit their social security, Medicare, and withheld federal income taxes. These schedules tell you when a deposit is due after you have a payday.

Your deposit schedule is not determined by how often you pay your employees. Your deposit schedule depends on the total tax liability you reported on Form 941 during the previous four-quarter **lookback period** (July 1 through June 30 of last year). See section 11 of Pub. 15 (Circular E) for details.

Before the beginning of each calendar year, determine which type of deposit schedule you must use. If you reported:

- \$50,000 or less in taxes during the lookback period, you are a **monthly schedule depositor**. Check the appropriate box on line 15 and fill out the tax liability for each month in the quarter.
- more than \$50,000 of taxes for the lookback period, you are a **semiweekly schedule depositor**. Check the appropriate box on line 15 and fill out the 2005 Schedule B (Form 941) and attach it to Form 941 when you submit it.



See section 11 of Pub. 15 (Circular E) for the Next Day Deposit Rule on taxes of \$100,000 or more accumulated on any day during the deposit period.

How Must You Deposit Your Taxes?

You may be required to deposit the income taxes you withheld and both the employer and employee social security taxes and Medicare. If your total taxes after adjustment for advance EIC (line 10) are:

- **\$2,500 or more for the quarter.** You must deposit your taxes by using the Electronic Federal Tax Payment System (EFTPS) or by depositing them at a financial institution that is authorized to accept federal tax deposits (that is, authorized depository) with Form 8109, Federal Tax Deposit Coupon.
- **Less than \$2,500 for the quarter.** You are not required to make a deposit, and you may pay the taxes in full with a timely filed return. However, if you are unsure that your taxes will be less than \$2,500 for the quarter, deposit your taxes using the appropriate rules (above) to avoid failure to deposit penalties.

See section 11 of Pub. 15 (Circular E) for more information.



EFTPS is an easy, safe, and convenient way for all employers to make their tax deposits. Using EFTPS helps eliminate errors commonly made on federal tax deposit (FTD) coupons. Some taxpayers are required to use EFTPS to deposit their taxes. See section 11 of Pub. 15 (Circular E) for details.

What About Penalties and Interest?

Avoid penalties and interest

You can avoid paying penalties and interest if you:

- deposit your taxes when they are due,
- file your fully completed Form 941 on time,
- report your tax liability accurately,
- submit valid checks to the IRS, and

- give accurate Forms W-2 to employees and file Copies A of Form W-2 with the Social Security Administration (SSA) on time and accurately.

If your deposit is late and you have a reasonable cause, attach an explanation to your return. We will review it when we process your form and, if you meet the reasonable cause requirements, penalties may be abated. (However, do not attach an explanation for late filing to copies of Form W-2 filed with the SSA.) Penalties and interest are charged on taxes paid late and returns filed late at a rate set by law. See sections 11 and 12 of Pub. 15 (Circular E) for more details.

Use Form 843, Claim for Refund and Request for Abatement, to request abatement of assessed penalties or interest. **Do not** request abatement of assessed penalties or interest on Form 941 or Form 941c, Supporting Statement To Correct Information.



A trust fund recovery penalty may apply if income, social security, and Medicare taxes that must be withheld are not withheld or paid. The penalty is the full amount of the unpaid trust fund tax. This penalty may apply when these unpaid taxes cannot be collected from the employer or business. The trust fund recovery penalty may be imposed on all people the IRS determines to be responsible for collecting, accounting for, and paying these taxes, and who acted willfully in not doing so. For more information, see Pub. 15 (Circular E).

Where Should You File?

Where you file depends on whether you include a payment with your form.

| If you are in . . . | | Without a payment . . . | With a payment . . . |
|--|----------------|---------------------------------------|---|
| Connecticut | New Jersey | IRS | IRS |
| Delaware | New York | Cincinnati, OH | P.O. Box 105703 |
| District of Columbia | North Carolina | 45999-0005 | Atlanta, GA |
| Illinois | Ohio | | 30348-5703 |
| Indiana | Pennsylvania | | |
| Kentucky | Rhode Island | | |
| Maine | South Carolina | | |
| Maryland | Vermont | | |
| Massachusetts | Virginia | | |
| Michigan | West Virginia | | |
| New Hampshire | Wisconsin | | |
| Alabama | Missouri | IRS | IRS |
| Alaska | Montana | Ogden, UT | P.O. Box 660264 |
| Arizona | Nebraska | 84201-0005 | Dallas, TX |
| Arkansas | Nevada | | 75266-0264 |
| California | New Mexico | | |
| Colorado | North Dakota | | |
| Florida | Oklahoma | | |
| Georgia | Oregon | | |
| Hawaii | South Dakota | | |
| Idaho | Tennessee | | |
| Iowa | Texas | | |
| Kansas | Utah | | |
| Louisiana | Washington | | |
| Minnesota | Wyoming | | |
| Mississippi | | | |
| No legal residence or principal place of business in any state | | IRS Philadelphia, PA 19255-0005 | IRS P.O. Box 80106 Cincinnati, OH 45280-0006 |
| Special rule for Exempt Organizations, Federal, State and Local Governmental Entities, and Indian Tribal Governmental Entities regardless of location | | IRS Ogden, UT 84201-0046 | IRS P.O. Box 660264 Dallas, TX 75266-0264 |



Your filing or payment address may have changed from prior years. If you are using an IRS-provided envelope, use only the labels and envelope provided with this tax package. Do not send Form 941 or any payments to the Social Security Administration (SSA).

Specific Instructions:

Part 1: Answer these questions for this quarter

1. Number of employees who received wages, tips, or other compensation this quarter

Tell us the number of employees you paid for the pay period including March 12, June 12, September 12, or December 12 for the quarter indicated at the top of the return. Do not include:

- household employees,
- people who received no pay for the pay period,
- pensioners, or
- active members of the Armed Forces.

If you enter "250" or more on line 1, you must file Forms W-2 electronically or on magnetic media. For details, call the SSA at 1-800-772-6270 or visit SSA's Employer Reporting Instructions and Information website at www.socialsecurity.gov/employer.

2. Wages, tips, and other compensation

Enter amounts on line 2 that would be included in box 1 of your employees' Forms W-2. See the Instructions for Forms W-2 and W-3 for details.

If you are an insurance company, do not include sick pay that you paid to policyholders' employees here if you gave the policyholders timely notice of the payments.

3. Total income tax withheld from wages, tips, and sick pay

Enter the income tax that you withheld (or were required to withhold) from your employees on this quarter's wages, tips, taxable fringe benefits, and supplemental unemployment compensation benefits.

If you are an insurance company, enter the income tax that you withheld (or were required to withhold) on third-party sick pay here.

4. If no wages, tips, and compensation on line 2 are subject to social security or Medicare tax . . .

If no wages, tips, and compensation on line 2 are subject to social security and Medicare taxes, check the box on line 4. If this question does not apply to you, leave the box blank. For more information about exempt wages, see section 15 of Pub. 15 (Circular E) and section 4 of Pub. 15-A, Employer's Supplemental Tax Guide.



If you are a government employer, wages that you pay are not automatically exempt from social security and Medicare taxes. Your employees may be covered by law or by a voluntary Section 218 Agreement with SSA. For more information, see Pub. 963, Federal-State Reference Guide.

5. Taxable social security and Medicare wages and tips

5a. Taxable social security wages. Report the total wages, sick pay, or fringe benefits subject to social security

taxes that you paid your employees during the quarter. For this purpose, sick pay includes payments made by an insurance company to your employees for which you received timely notice from the insurance company. See Pub. 15-A.

Enter the amount before deductions. Do not include tips on this line. For information on types of wages subject to social security taxes, see section 5 of Pub. 15 (Circular E).

The rate of social security tax on taxable wages is 6.2 percent (.062) each for the employer and employee or 12.4 percent (.124) for both. Stop paying social security tax on and reporting an employee's wages on line 5a when the employee's taxable wages (including tips) reach \$90,000 during 2005. However, continue to withhold income and Medicare taxes for the whole year on wages and tips even when the social security wage base of \$90,000 has been reached.

Continue to withhold income and Medicare taxes for the whole year on wages and tips.

$$\begin{array}{r} \text{line 5a (column 1)} \\ \times .124 \\ \hline \text{line 5a (column 2)} \end{array}$$

5b. Taxable social security tips. Enter all tips your employees reported to you during the quarter until the total of the tips and wages for an employee reach \$90,000 in 2005. Do this even if you were unable to withhold the employee tax of 6.2%.

An employee must report cash tips to you, including tips you paid the employee for charge customers, totaling \$20 or more in a month by the 10th of the next month. Employees may use Form 4070, Employee's Report of Tips to Employer, or submit a written statement or electronic tip record.

Do not include allocated tips on this line. Instead, report them on Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips. Allocated tips are not reportable on Form 941 and are not subject to withholding of income, social security, or Medicare taxes.

$$\begin{array}{r} \text{line 5b (column 1)} \\ \times .124 \\ \hline \text{line 5b (column 2)} \end{array}$$

5c. Taxable Medicare wages and tips. Report all wages, tips, any sick pay, and taxable fringe benefits that are subject to Medicare tax. Unlike social security wages, there is no limit on the amount of wages subject to Medicare tax.

Include all tips your employees reported during the quarter, even if you were unable to withhold the employee tax of 1.45%.

$$\begin{array}{r} \text{line 5c (column 1)} \\ \times .029 \\ \hline \text{line 5c (column 2)} \end{array}$$

For more information, see section 6 of Pub. 15 (Circular E).

5d. Total social security and Medicare taxes. Add social security tax, social security tips tax, and Medicare taxes.

$$\begin{array}{r} \text{line 5a (column 2)} \\ \text{line 5b (column 2)} \\ + \text{line 5c (column 2)} \\ \hline \text{line 5d} \end{array}$$

6. Total taxes before adjustments

Add the total income tax withheld from wages, tips, and other compensation and total social security and Medicare taxes before adjustments.

$$\begin{array}{r} \text{line 3} \\ + \text{line 5d} \\ \hline \text{line 6} \end{array}$$

7. Adjustments

Current period adjustments. In certain cases, you must adjust the amounts you reported on lines 5a, 5b, and 5c as social security and Medicare taxes to figure your correct tax liability for this quarter's Form 941. See section 13 of Pub. 15 (Circular E). **Do not** attach Form 941c or an equivalent statement for current period adjustments. If you need to adjust any amount previously reported on lines 7a-7c, use line 7e to report the adjustment and attach Form 941c or an equivalent statement with an explanation.

7a. Current quarter's fractions of cents. Enter adjustments for fractions of cents (due to rounding) relating to the employee share of social security and Medicare taxes withheld. The employee share (one-half) of amounts shown on lines 5a-5c may differ slightly from amounts actually withheld from employees' paychecks due to the rounding of social security and Medicare taxes based on statutory rates.

7b. Current quarter's sick pay. Enter the adjustment for the employee share of social security and Medicare taxes that were withheld by your third-party sick pay payer.

7c. Current quarter's adjustments for tips and group-term life insurance. Enter adjustments for:

- any uncollected employee share of social security and Medicare taxes on tips and
- the uncollected employee share of social security and Medicare taxes on group-term life insurance premiums paid for former employees.

Prior period adjustments. Use lines 7d-7g to adjust amounts reported on **previous returns**. If you need to report both an increase and a decrease for the same line, show only the difference.

Adjustments you report here change your tax liability and your tax deposits. You will have to take these adjustments into account on line 15, Tax liability (Month 1, Month 2, Month 3), or on Schedule B (Form 941). You **must** explain any adjustments that you make on Form 941c, Supporting Statement to Correct Information, or in an equivalent statement.

Form 941c is **not** an amended return but is a statement providing the necessary information and certifications for adjustments shown on lines 7d-7g. **Do not** file Form 941c separately from Form 941. See also section 13 of Pub. 15 (Circular E).

7d. Current year's income tax withholding. Enter adjustments for the **current year's** income tax withholding. For example, if you made a mistake when withholding income tax from wages that were **paid in earlier quarters of the same calendar year**, adjust it here. (See the CAUTION below for adjustment of a prior year's "administrative error" that may also be shown on line 7d.)

You cannot adjust or claim a refund or credit for any overpayment of income tax that you withheld or deducted from your employees in a previous year because employees use the amount shown on Form W-2 as a credit when they file their income tax returns.

Also report here any income tax adjustments to amounts reported on prior period Forms 941, line 7f.



Do not adjust income tax withholding for quarters in previous years unless you do it to correct an administrative error. An administrative error happened if the amount you entered on Form 941 was not the same amount you actually withheld. For example, when the total amount of income tax actually withheld was not reported correctly on the

Form 941 because it was a mathematical or transposition error, it would be an administrative error. The administrative error adjustment corrects the amounts reported on the Form 941 to agree with the amount actually withheld from the employee. Remember to attach an explanation for the adjustment.

7e. Prior quarters' social security taxes and Medicare taxes. Enter adjustments for prior period social security and Medicare taxes. For example, if you made a mistake when reporting social security and Medicare taxes on previously filed Forms 941, adjust it here. If you report both an underpayment and an overpayment, show only the net difference.

Also report here any social security and Medicare tax adjustments to amounts reported on prior period Forms 941, line 7g.

TIP If you are adjusting an employee's social security or Medicare wages or tips for a prior year, you must also file Form W-2c, Corrected Wage and Tax Statement, and Form W-3c, Transmittal of Corrected Wage and Tax Statements.

7f. Special additions to federal income tax. This line is reserved for businesses with special circumstances. Use this line **only** if the IRS has sent you a notice instructing you to do so. For more information about this line, see *Special additions to employment tax liabilities* in section 13 of Pub. 15 (Circular E).

7g. Special additions to social security and Medicare. This line is reserved for businesses with special circumstances. Use this line **only** if the IRS has sent you a notice instructing you to do so. For more information about this line, see *Special additions to employment tax liabilities* in section 13 of Pub. 15 (Circular E).

7h. Total adjustments. Combine all adjustments shown on lines 7a through 7g and enter the result here.

8. Total Taxes After Adjustments

Combine the amounts shown on lines 6 and 7h and enter the result here.

9. Advance Earned Income Credit Payments Made to Employees

Enter the amount of the advance earned income credit (EIC) payments that you made to employees. Eligible employees may choose to receive part of the EIC as an advance payment. Those who expect to have a qualifying child must give you a completed Form W-5 stating they expect to qualify for the EIC. Once the employee gives you a signed and completed Form W-5 you must make the advance EIC payments starting with the employee's next wage payment. Advance EIC payments are generally made from withheld income tax and employee and employer social security and Medicare taxes. See section 10 of Pub. 15 (Circular E) and Pub. 596, Earned Income Credit.

If the amount of your advance EIC payments is more than your total taxes (line 8) for the quarter, you may claim a refund of the overpayment or elect to have the credit applied to your return for the next quarter. Attach a statement to your Form 941 identifying the amount of excess payments and the pay periods in which you paid it.

10. Total Taxes After Adjustment for Advance EIC

Calculate your total taxes as shown below.

$$\begin{array}{r} \text{line 8} \\ - \quad \text{line 9} \\ \hline \text{line 10} \end{array}$$

• If line 10 is \$2,500 or more for the quarter, you must deposit your tax liabilities by using the Electronic Federal Tax

Payment System (EFTPS) or at an authorized financial institution with Form 8109. The amount shown on line 10 **must** equal the "Total" shown on Form 941, line 15 or the "Total liability for the quarter" shown on Schedule B (Form 941).

• If line 10 is less than \$2,500, you may pay the full amount with a timely filed return because you were not required to deposit. See section 11 of Pub. 15 (Circular E) for information and rules about federal tax deposits.



If you are a **semiweekly depositor**, you must complete Schedule B (Form 941). If you fail to complete and submit Schedule B (Form 941), IRS will assert deposit penalties based on available information.

11. Total Deposits for This Quarter

Enter your deposits for this quarter including any deposits that you were required to make to cover prior period liabilities resulting from adjustments shown on line 7. Include in the amount shown any overpayment from a previous period that you applied to this return.

12. Balance Due

You do not have to pay if line 12 is under \$1. Generally, you should have a balance due only if your total taxes for the quarter (line 10) are less than \$2,500. (However, see section 11 of Pub. 15 (Circular E) for information about payments made under the **accuracy of deposits rule**.)

You may pay the amount shown on line 12 using EFTPS. If you do so, file your return using the "Without a payment" address on page 4 under *Where should you file?* and do not file Form 941-V, Payment Voucher.

If line 10 is \$2,500 or more and you have deposited all taxes when due, line 12 ("Balance Due") should be zero.

$$\begin{array}{r} \text{line 10} \\ - \quad \text{line 11} \\ \hline \text{line 12} \end{array}$$



If you do not deposit as required and pay the taxes with Form 941, you may be subject to a penalty.

13. Overpayment

If line 11 is more than line 10, write the amount in line 13. **Never** make an entry in both lines 12 and 13.

If you deposited more than the correct amount for a quarter, choose to have us either refund the overpayment or apply it to your next return. Check the appropriate box in line 13.

If you do not check either box, we will automatically apply your overpayment to your next return. We may apply your overpayment to any past due tax account that is shown in our records under your EIN.

If line 13 is under \$1, we will send a refund or apply it to your next return only if you ask us in writing to do so.

Part 2: Tell us about your deposit schedule for this quarter

14. State abbreviation

In the spaces provided, write the two-digit Postal Service abbreviation for the state where you deposit your taxes using Form 8109 or initiate EFTPS transfers. IRS uses the state shown to determine banking days for purposes of deposit due dates. Official state holidays for the state shown are not counted as banking days. If you deposit in multiple states, enter "MU" in the spaces provided.

When you deposit in multiple states, IRS cannot determine what portion of your liability was affected by a state holiday and may propose a deposit penalty for one or more of the states where you made deposits. If you receive a notice and your deposit due date was extended because of a state bank holiday, respond to the notice citing the state holiday and applicable deposit amount.

15. Check one:

- If line 10 is less than \$2,500, check the appropriate box in line 15 and go to Part 3.
- If you reported \$50,000 or less in taxes during the lookback period (see below), you are a **monthly schedule depositor** unless the *\$100,000 Next-Day Deposit Rule* discussed in section 11 of Pub. 15 (Circular E) applies. Check the appropriate box on line 15 and fill out the tax liability for each month in the quarter.

| |
|-------------------------------------|
| + Month 1 |
| + Month 2 |
| + Month 3 |
| Total tax liability for the quarter |

Note that your total tax liability for the quarter must equal your total taxes shown on line 10.

You are a **monthly schedule depositor** for the calendar year if the amount of your Form 941 taxes reported for the lookback period is \$50,000 or less. The lookback period is the four consecutive quarters ending on June 30 of the prior year. For 2005, the lookback period begins July 1, 2003, and ends June 30, 2004. For details on the deposit rules, see section 11 of Pub. 15 (Circular E).



This is a summary of your monthly tax liability, not a summary of deposits you made. If you do not properly report your liabilities when required or if you are a semiweekly schedule depositor and report your liabilities on line 15 instead of on Schedule B (Form 941), you may be assessed an "averaged" failure-to-deposit (FTD) penalty. See Deposit Penalties in section 11 of Pub. 15 (Circular E) for more information.

You may need to complete Schedule B (Form 941). If you reported more than \$50,000 of taxes for the lookback period, you are a **semiweekly schedule depositor**.

You **must** complete the 2005 Schedule B (Form 941) and submit it with your Form 941. Do **not** use Schedule B (Form 941) if you are a monthly schedule depositor.

Reporting adjustments on line 15. If your tax liability for any month is negative (for example, if you are adjusting an overreported liability in a prior period), do not enter a negative amount for the month. Instead, enter zero for the month and subtract that negative amount from your tax liability for the next month.

Here's an example:

Pine Co. discovered on February 6, 2001, that it overreported social security tax on a prior quarter return by \$2,500. Its Form 941 taxes for the first quarter of 2002 were:

| | |
|----------|-----------|
| January | = \$2,000 |
| February | = \$2,000 |
| March | = \$2,000 |

For Pine Co., then

| | |
|-----------|----------|
| Month 1 = | \$2,000 |
| Month 2 = | 0 |
| Month 3 = | +\$1,500 |
| Total | \$3,500 |

The prior period adjustment (\$2,500) offsets the \$2,000 liability for February and the excess \$500 must be used to offset March liabilities. Since the error was not discovered until February, it does not affect January liabilities reported in Month 1 of line 15.

Part 3: Tell us about your business

In Part 3, answer only those questions that apply to your business. If a question does not apply, leave it blank and go to Part 4.

16. If Your Business Has Closed . . .

If you go out of business or stop paying wages, you must file a **final return**. To tell IRS that a particular Form 941 is your final return, check the box on line 16 and enter the date you last paid wages in the space provided.

17. If You Are a Seasonal Employer . . .

If you hire employees seasonally—such as for summer or winter only—check the box on line 17. Checking the box tells IRS not to expect four Forms 941 from you throughout the year because you have not paid wages regularly.

IRS will mail you two forms once a year after March 1. Generally, we will not ask about unfiled returns if you file at least one return showing tax due each year. However, you must check the box **every time** you file a Form 941.

Also, when you fill out Form 941, be sure to check the box on the top of the form that corresponds to the quarter reported.

Part 4: May we contact your third-party designee?

If you want to allow an employee or your paid tax preparer to discuss your Form 941 with the IRS, check the "Yes" box in Part 4. Then tell us the name, phone number, and the five-digit personal identification number of the specific person to contact—not the name of the firm who prepared your tax return.

By checking "Yes," you authorize IRS to call the person you named (your designee) with any questions we may have while we process your return. You also authorize your designee to:

- give us any information that is missing from your return,
- call us for information about processing your return, and
- respond to certain IRS notices that you have shared with your designee about math errors and return preparation. IRS will **not** send notices to your designee.

You are **not authorizing** your designee to bind you to anything (including additional tax liability) or to otherwise represent you before the IRS. If you want to expand your designee's authorization, see Pub. 947, Practice Before the IRS and Power of Attorney.

The authorization will automatically **expire** one year from the due date (without regard to extensions) for filing your Form 941. If you or your designee want to terminate the authorization, write to the IRS office where the return was filed.

Part 5: Sign here— Who Must Sign the Form 941?

Form 941 must be signed as follows.

- **Sole proprietorship**— The individual who owns the business.

- **Corporation (including an LLC treated as a corporation)**— The president, vice president, or other principal officer.
- **Partnership (including an LLC treated as a partnership) or unincorporated organization**— A responsible and duly authorized member or officer having knowledge of its affairs.
- **Single member limited liability company (LLC) treated as a disregarded entity**— The owner of the limited liability company (LLC).
- **Trust or estate**— The fiduciary.

Form 941 may also be signed by a duly authorized agent of the taxpayer if a valid power of attorney has been filed.

Part 6: For Paid Preparers Only (optional)

Complete Part 6 if you were paid to prepare this return and are not an employee of the filing entity. Sign in the space provided and give the filer a copy of the return in addition to the copy to be filed with the IRS. Do not complete Part 6 if you are filing the return as a reporting agent and have a valid Form 8655, Reporting Agent Authorization, on file with the IRS. You are not required to complete this section.

How to Order Forms and Publications from the IRS



Call 1-800-829-4933.



Visit the IRS website at www.irs.gov.

Other IRS Products You May Need

- Form SS-4, *Application for Employer Identification Number*
- Form W-2, *Wage and Tax Statement*
- Form W-2c, *Corrected Wage and Tax Statement*
- Form W-3, *Transmittal of Wage and Tax Statements*
- Form W-3c, *Transmittal of Corrected Wage and Tax Statements*
- Form W-4, *Employee's Withholding Allowance Certificate*
- Form W-5, *Earned Income Credit Advance Payment Certificate*
- Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*
- Form 941c, *Supporting Statement to Correct Information*
- Form 943, *Employer's Annual Federal Tax Return for Agricultural Employees*
- Form 945, *Annual Return of Withheld Federal Income Tax*
- Form 4070, *Employee's Report of Tips to Employer*
- Form 8027, *Employer's Annual Information Return of Tip Income and Allocated Tips*
- *Instructions for Forms W-2 and W-3*
- *Notice 797, Possible Federal Tax Refund Due to the Earned Income Credit (EIC)*
- Pub. 15 (Circular E), *Employer's Tax Guide*
- Pub. 15-A, *Employer's Supplemental Tax Guide*
- Pub. 15-B, *Employer's Tax Guide to Fringe Benefits*
- Pub. 51, (Circular A), *Agricultural Employer's Tax Guide*
- Pub. 596, *Earned Income Credit*
- Pub. 926, *Household Employer's Tax Guide*
- Pub. 947, *Practice Before the IRS and Power of Attorney*
- Schedule B (Form 941), *Report of Tax Liability for Semiweekly Schedule Depositors*
- Schedule D, (Form 941), *Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations*
- Schedule H (Form 1040), *Household Employment Taxes*